

# ASSEMBLY

13 July 2016

<b>Title:</b> Treasury Management Annual Report 2015/16	
<b>Report of the Cabinet Member for Finance, Growth and Investment</b>	
<b>Open</b>	<b>For Decision</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> Yes
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<b>Accountable Director:</b> Kathy Freeman, Finance Director	
<b>Accountable Strategic Director:</b> Jonathan Bunt, Strategic Director for Finance and Investment	
<b>Summary</b>	
<p>Changes in the regulatory environment now place a greater onus on Elected Members for the review and scrutiny of treasury management policy and activities. This report (the Treasury Management Annual Report) is important in that respect, as it provides details of the outturn position for treasury activities, significant new borrowing proposed, and highlights compliance with the Council's policies previously approved by the Assembly prior to the start of each financial year.</p> <p>This report presents the Council's outturn position in respect of its treasury management activities during 2015/16. The key points to note are as follows:</p> <ul style="list-style-type: none"><li>➤ Investment income for the year was £3.7m (2014/15: £1.6m), an outperformance against budget of £834k;</li><li>➤ The Council's interest return of 1.37% for 2015/16 was 0.54% higher than the average London Peer Group return and 0.73% higher than the Local Authority average return;</li><li>➤ The value of investments as at 31 March 2015 totalled £227.1 million;</li><li>➤ The value of long term borrowing as at 31 March 2016 totalled £394.9m. This comprised market, PWLB and European Investment Bank loans;</li><li>➤ The value of short term borrowing as at 31 March 2016 totalled £57.2m;</li><li>➤ There was no long term General Fund borrowing in 2015/16;</li><li>➤ The Council did not breach its 2015/16 authorised borrowing limit of £802m or its Operational Boundary limit of £751m; and</li></ul>	

- The Council complied with all other set treasury and prudential limits.

The Cabinet considered and endorsed the TMSS Annual Report at its meeting on 28 June 2016, although since that time an additional issue has come to light relating to the remaining £61m of funding from the European Investment Bank. The issue is covered in detail in paragraph 5.6 and Recommendations (vii), (viii) and (ix) have been added below.

### **Recommendation(s)**

The Assembly is to recommend to:

- (i) Note the Treasury Management Annual Report for 2015/16;
- (ii) Note that the Council complied with all 2015/16 treasury management indicators;
- (iii) Approve the actual Prudential and Treasury Indicators for 2015/16;
- (iv) Approve the amendments to the counterparty limits as set out in section 4.4 of the report;
- (v) Note that the Council borrowed £50m from the Public Works Loan Board (PWLB) in June 2016 to fund capital expenditure;
- (vi) Agree to maintain the delegated authority to the Strategic Director for Finance and Investment, in consultation with the Cabinet Member for Finance, Growth and Investments, to continue to proportionally amend the counterparty lending limits agreed within the Treasury Management Strategy Statement to take into account the additional cash holdings resulting from borrowing from the European Investment Bank and the PWLB;
- (vii) Agree to borrow the remaining £61m from the European Investment Bank as soon as suitable regeneration projects are identified;
- (viii) Delegate authority to the Strategic Director Finance & Investment, in consultation with the Director of Law & Governance, and the Cabinet Member for Finance, Growth and Investment, to negotiate terms with the EIB; and
- (ix) Authorise the Director of Law and Governance, or an authorised delegate on her behalf, to execute all of the legal agreements, contracts and other documents on behalf of the Council.

### **Reason(s)**

This report is required to be presented to the Assembly in accordance with the Revised CIPFA Code of Practice for Treasury Management in the Public Services.

## 1. Introduction and Background

1.1. The Council is required by regulations issued under the Local Government Act 2003 (as amended 2010) to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16.

1.2 The report has been produced in accordance with the Revised CIPFA Code of Practice for Treasury Management in the Public Services 2009 adopted by this Council on 16 February 2010 and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.3 For the 2015/16 period Assembly received the following reports:

- an annual treasury strategy in advance of the year (Assembly 24/02/2015);
- a mid-year (minimum) treasury update report (Assembly 02/12/2015); and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

1.4 This Annual Treasury Report covers:

- The Council's treasury position as at 31 March 2016;
- Economic Factors and Interest rates in 2015/16;
- Investment Strategy and Performance in 2015/16;
- Borrowing Outturn;
- Treasury Management costs in 2015/16;
- Compliance with Treasury limits and Prudential indicators;
- Lending to Commercial and External Organisations; and
- Prudential Indicators for 2015/16 (Appendix 1).

## 2. Treasury Position as at 31 March 2016

2.1 The Council's treasury position for 2014/15 and 2015/16 can be found in table 1:

**Table 1: Council's treasury position at the start and end of 2015/16**

	31-Mar-2015	Average Rate of interest	Average Life	31-Mar-2016	Average Rate of interest	Average Life
	£'000	%	Yrs	£'000	%	Yrs
<b>Fixed Rate Debt - Long Term Borrowing</b>						
HRA – PWLB	265,912	3.50	40.81	<b>265,912</b>	<b>3.50</b>	<b>39.67</b>
GF - Market	40,000	4.02	53.61	<b>40,000</b>	<b>4.02</b>	<b>52.61</b>
GF – EIB	89,000	2.21	29.83	<b>89,000</b>	<b>2.21</b>	<b>28.83</b>
<b>Fixed Rate Debt - Short Term Borrowing</b>						
<b>GF - Local Authorities</b>				<b>57,200</b>	<b>0.52</b>	<b>0.08</b>
<b>Total Debt</b>	394,912	3.26	39.34	<b>452,112</b>	<b>2.92</b>	<b>39.34</b>
<b>Investments</b>						
In-House*	217,926	1.08	0.80	<b>227,111</b>	<b>1.37</b>	<b>1.24</b>
<b>Total Investments</b>	217,926	1.08	0.80	<b>227,111</b>	<b>1.37</b>	<b>1.24</b>

\* excludes a prepayment made to Elevate and external school cash balances.

- 2.2 The Council manages its debt and investment positions through its in-house treasury section in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.
- 2.3 Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

### **3. The Economy and Interest rate in 2015/16**

- 3.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.
- 3.2 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. The Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.
- 3.3 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.
- 3.4 The European Central Bank (ECB) commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.
- 3.5 As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.
- 3.6 The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

## 4. Investment Strategy and Performance in 2015/16

### 4.1 Annual Investment Strategy (AIS) 2015/16

4.1.1 All investments were managed in-house and were invested with institutions of high credit standing listed in the Council's approved lending list and specified limits. The Council invested over a range of periods from overnight to two years and in some cases over two years dependent on the Council's cash flows, its treasury management adviser's view, its interest rate view and the interest rates on offer.

4.1.2 The Council meet quarterly with its Investment Adviser to discuss financial performance, objectives and targets in relation to the investments and borrowing managed on behalf of the Council. A monthly treasury meeting was held between the Strategic Director – Finance and Investment (SDFI) and the treasury section to discuss strategy and to ensure close monitoring of investment decisions. The Cabinet Member is briefed regularly on treasury activity by the Strategic Director.

4.1.3 The Council's investment policy is governed by CLG guidance, which was implemented in the 2015/16 AIS, approved by the Assembly on 24 February 2015. The policy sets out the Council's approach for choosing investment counterparties.

4.1.4 The key points relating to the annual investment strategy were:

- (i) As part of regulation changes within the banking sector the UK Government will remove the expectation that governments will support financial institutions in the event of an institution failing. To do this the UK Government has agreed a process to deal with a financial institution failure, which includes the option for institutional investors to lose part of their invested cash as part of a "bail in".

An area of concern is the potential for rating agencies to downgrade the banks the Council is invested with due to the loss of the implied government support. This could have brought them below the minimum credit rating agreed by the Council in the 2015/16 Treasury Management Strategy Statement (TMSS) or the equivalent for 2016/17. Members agreed that where the credit rating is taken into account, the minimum credit rating criteria be revised from A / F1 to A- F2.

- (ii) To support the significant savings requirement the Council has for 2015/16 and 2016/17, Members agreed savings targets for treasury. To achieve the interest target the treasury section needs to achieve the following average returns on an estimated average cash balance of £140m: The savings target and return target are outlined in table 2 below:

**Table 2: Treasury Savings Targets for 2015/16 to 2016/17**

<b>Savings Proposal</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>Total £000</b>
Increase in Average Return as Rates Rise	500	500	1,000
Increase Counterparty Risk	250	-	250
Increase Duration Risk	100	-	100
<b>Total Savings</b>	<b>850</b>	<b>500</b>	<b>1,350</b>
<b>Target Return</b>	<b>1.25%</b>	<b>1.70%</b>	

- (iii) To achieve the interest income budget set, without taking significant risk the treasury section has sought to increase the duration of a number of investments. Potential higher returns will be weighed against the risk of locking in investments.
- (iv) To maintain the authority delegated to the SDFI, in consultation with the Cabinet Member for Finance, Growth & Investment, to proportionally amend the counterparty lending limits agreed within the TMSS to take into account the initial increase in cash from the EIB but also the subsequent decrease in cash balances.

## 4.2 Investments decisions during 2015/16

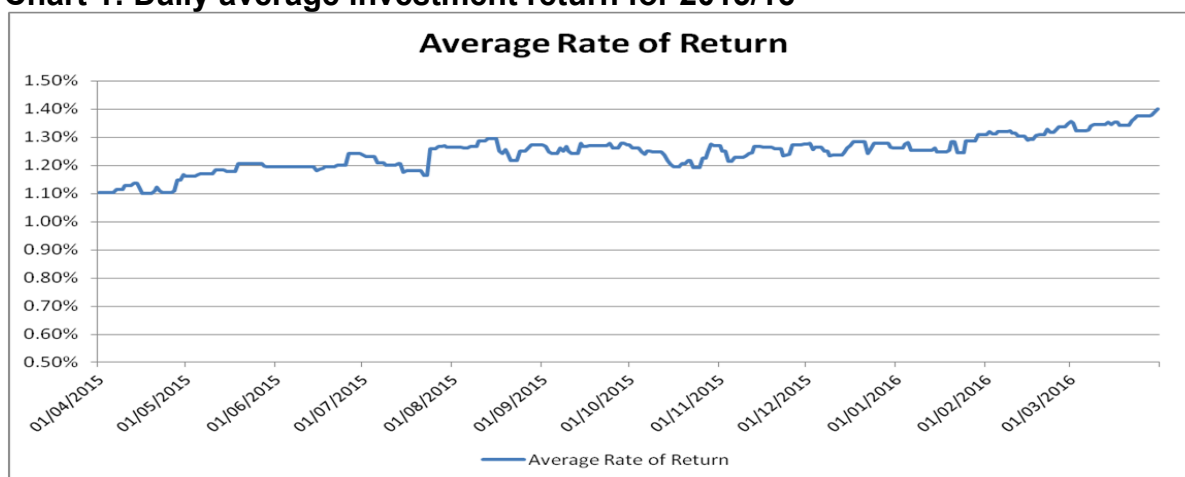
4.2.1 When making investment decisions the Council must have regard to its investment priorities being:

- (a) The **security** of capital;
- (b) The **liquidity** of its investments; and
- (c) **Yield** (after ensuring the above are met).

4.2.2 Using the above as the basis for investment decisions does mean that investment returns will be lower than would be possible were yield the only consideration. During 2015/16 the Council ensured that all investments were made with appropriately rated counterparties and that liquidity was maintained. On occasion short term borrowing was also used to allow the Council to take advantage of investment opportunities.

4.2.3 For 2015/16 an investment return target of 1.25% was used by the treasury section. During the year there were a number of opportunities for the Council to invest with credit worthy financial institutions as well as Local Authorities over a longer duration at much improved rates. These opportunities allowed the treasury section to provide an average return of 1.30% during the year and a yearend average return of 1.37%. Chart 1 shows the increase in the average return for the Council during the year

**Chart 1: Daily average investment return for 2015/16**



4.2.4 The average cash balance held was £230m, which included the use of short-term borrowing to cover some of the investment opportunities. Short-term borrowing was also used to smooth the cash flow fluctuations, allowing treasury to keep a significant proportion of its investments invested over a longer duration.

4.2.5 Due to the outperformance of the return and the significantly higher average cash balance held, treasury was able to outperform its benchmark by £834k, providing an overall gross interest income to the Council of £3.7m.

### 4.3 **Strategy Changes in 2015/16**

4.3.1 The Council's investment policy was agreed in the annual investment strategy approved by the Assembly on 24 February 2015. Members agreed to delegate authority to the SDFI in consultation with the Cabinet Member for Finance to proportionally amend the counterparty lending limits agreed within the TMSS to take into account the potential additional £150m from the EIB. During the year the SDFI made the following strategy changes:

- i. As at 22 July 2015 the Council held cash balances of £260m, significantly higher than forecast of £200m in the TMSS. A delegated decision agreed to temporarily increase the RBS limit set in the TMSS from £50m to £90m, with the increase to the unspecified limit, taking it from £30m for RBS to £90m.
- ii. To accommodate this increase, the limit on Lloyds was reduced, as and when deals mature, from £80m to £50m. This decrease supported the treasury strategy of reducing the Council's exposure to Lloyds as it became more evident that the government holdings in Lloyds would be sold in early 2016.

### 4.4 **Proposed Strategy Changes in 2016/17**

4.4.1 In February the Assembly agreed to counterparty limits for both specified investments (investments maturing within one year) and non-specified investments (investments with a maturity over one year).

4.4.2 The counterparty limits were set to accommodate the cash balances forecast for 2016/17 and included delegated authority given to the SDFI, in consultation with the Cabinet Member for Finance, to proportionally amend the counterparty lending limits agreed within the TMSS to take into account the additional cash holdings resulting from the £89m borrowed from the European Investment Bank.

4.4.3 As part of the Ambition 2020 a strategy was agreed to increase the Council's income generating asset base and enable the Council to be an active participant in the growth opportunities within in borough but with a very clear focus on return. The target investment return expected, after all costs, is 5% based on £100m investment. The majority of the £100m requires external borrowing and a strategy of borrowing when costs are low was implemented in early 2016.

4.4.4 In June 2016, as a result of uncertainty over the referendum, the cost of long term borrowing significantly reduced. As a result the SDFI agreed to borrow the following amounts from the Public Works and Loans Board (PWLB):

- On 9 June 2016 borrowed £20m at 2.72% with a 50 year maturity;
- On 14 June 2016 borrowed £10m at 2.65% with a 43.5 year maturity;
- On 28 June 2016 borrowed £10m at 2.49% with a 43.5 year maturity; and
- On 29 June 2016 borrowed £10m at 2.38% with a 46.0 year maturity.

- 4.4.5 There is potential for further borrowing to be made should rates continue to remain low. Chart 2 below outlines the significant decrease in the 50 year bond yield since the start of the year:

**Chart 2: UK Government 50 year gilt yield 14 June 2006 to 29 June 2016**



- 4.4.6 The borrowing taken out has the direct effect of increasing the cash balances held by the Council. As a result the counterparty limits need to change to accommodate this. The following proposed changes are recommended:

Counterparty / Financial Instrument	Non-Specified Investments Counterparty Limit £m		
	Maximum Duration	Current Counterparty Limit £m	Proposed Counterparty Limit £m
Lloyds Banking Group	1 to 3 years	£50m	£65m
Other UK Banks & Building Societies	1 to 3 years	£30m per counterparty	£40m per counterparty
Property Funds	N/A	£15m	£20m

- 4.4.7 The proposed changes will provide sufficient investment room with the major counterparties the Council invests with during the period of elevated cash balances.
- 4.4.8 As the elevated cash balances will be invested throughout 2016/17 and into 2017/18 it is recommended that delegated authority is given to the SDFI, in consultation with the Cabinet Member for Finance, to continue to proportionally amend the counterparty lending limits agreed within the TMSS to take into account the additional cash holdings resulting from borrowing from the European Investment Bank and the PWLB.

#### 4.5 Performance Benchmark in 2015/16

As part of ensuring value for money and to monitor the Council's investment return, the Council's treasury performance is benchmarked by against a peer group of other Local Authorities. Benchmarking date is provided by the Council's treasury advisors, Capita Asset Services. Table 3 summarises the main investment benchmarking data as at 31 March 2016.



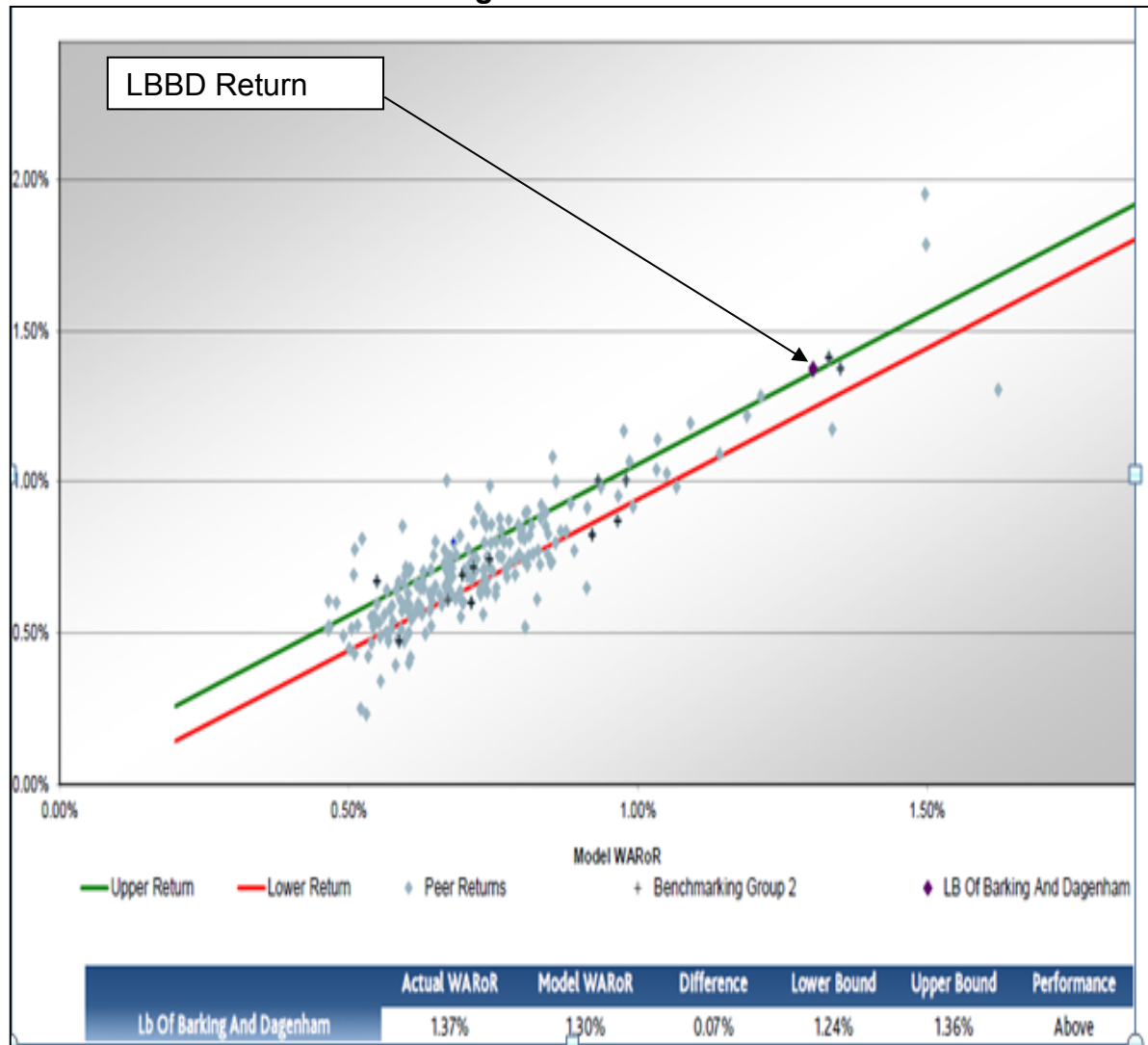
**Table 3: Advisor's Benchmarking data as at 31 March 2016**

Savings Proposal	LBBB	London Peer Group (20)	Total LA Group (223)
Weighted Average Rate of Return	1.37%	0.83%	0.74%
Model Banding Target	1.24% - 1.36%	0.83% - 0.95%	N/A
Weighted Average Maturity(days)	451	150	101
Credit Risk	3.57	3.63	3.98

The benchmarking data outlines the outperformance of the Council's investment return compared to a group of 20 London Boroughs and 223 Local Authorities (LAs). The Council's return for 2015/16 was 0.54% higher than the average London Peer Group return and 73% higher than the Local Authority average return. As the average cash balance held by the Council in 2015/16 was £230m, this equates to an outperformance of £1.25m and £1.68m respectively.

The benchmarking data includes a model banding target which is a target return banding for the duration and credit risk taken for the investments. The Council managed to outperform the upper model banding target by 0.01%. Chart 2 illustrates the Council's return against the upper and lower banding levels and shows the Council's performance compared to all LAs within the benchmark group.

**Chart 2: Advisor's benchmarking data as at 31 March 2016**



One of the main reasons for the Council's outperformance was the longer average duration of each investment, with the Council's average investment maturing over one year compared to an average for both benchmark groups of less than five months. As a general rule a longer duration would result in a higher risk score, however for the Council the credit risk of its investments are lower than both of the benchmark groups.

#### 4.6 Investments Held as at 31 March 2016

Table 4 outlines the investments held by the Council as at 31 March 2016. The table also shows the interest rate received and the repayment date for each investment:

**Table 4: Investments held as at 31 March 2016**

Investment	Lowest Long Term Rating	Interest rate	Principal	Issue Date	Repayment Date
Santander Uk	A	0.92%	29,500,000	30/11/2015	05/07/2016
Lloyds Bank Plc	A	1.00%	5,000,000	13/04/2015	13/04/2016
Standard Chartered Bank	A+	0.90%	5,000,799	28/05/2015	27/05/2016
Lloyds Bank Plc	A	1.00%	5,000,000	04/06/2015	06/06/2016
Lloyds Bank Plc	A	1.00%	5,000,000	05/06/2015	06/06/2016
Lloyds Bank Plc	A	1.00%	5,000,000	03/07/2015	01/07/2016
Royal Bank Of Scotland	BBB+	1.85%	15,066,767	19/09/2014	19/09/2016
Royal Bank Of Scotland	BBB+	1.32%	15,023,780	30/01/2015	30/01/2017
Lloyds Bank Plc	A	1.15%	4,500,000	31/03/2015	31/03/2017
Royal Bank Of Scotland	BBB+	1.45%	20,125,592	30/04/2015	28/04/2017
Dudley MBC	AA+ Equivalent	1.05%	10,000,000	15/05/2015	15/05/2017
Royal Bank Of Scotland	BBB+	1.45%	20,039,294	26/06/2015	26/06/2017
Newport City Council	AA+ Equivalent	1.10%	2,000,000	10/08/2015	10/07/2017
Newport City Council	AA+ Equivalent	1.10%	1,500,000	09/09/2015	10/07/2017
Newport City Council	AA+ Equivalent	1.50%	2,000,000	10/11/2014	11/07/2017
Royal Bank Of Scotland	BBB+	1.80%	20,043,987	24/07/2015	24/07/2017
Wolverhampton CC	AA+ Equivalent	0.94%	8,000,000	28/09/2015	28/09/2017
Lancashire CC	AA+ Equivalent	1.02%	5,000,000	16/11/2015	16/11/2017
Lancashire CC	AA+ Equivalent	1.05%	5,000,000	08/01/2016	08/01/2018
Fife Council	AA+ Equivalent	1.00%	4,000,000	14/01/2016	15/01/2018
Valence Primary School	AA+ Equivalent	3.50%	200,000	12/02/2015	31/03/2018
Lancashire CC	AA+ Equivalent	1.00%	5,000,000	11/11/2015	11/05/2018
Lancashire CC	AA+ Equivalent	1.54%	5,000,000	20/11/2015	20/11/2018
Lancashire CC	AA+ Equivalent	1.54%	5,000,000	26/11/2015	26/11/2018
Lloyds Bank Plc	A	1.67%	5,000,000	20/01/2016	18/01/2019
Lloyds Bank Plc	A	1.67%	5,000,000	03/02/2016	01/02/2019
Lloyds Bank Plc	A	1.80%	10,000,000	15/03/2016	15/03/2019
Barking Riverside Ltd	N/A	3.50%	4,917,941	15/10/2014	01/04/2020
Grafton Primary School	AA+ Equivalent	4.50%	108,931	03/03/2016	03/03/2026
Gascoigne Primary School	AA+ Equivalent	4.50%	84,395	03/03/2016	03/03/2036
			Total	227,111,485	
			Average Return	1.37%	

## 5. Borrowing Outturn

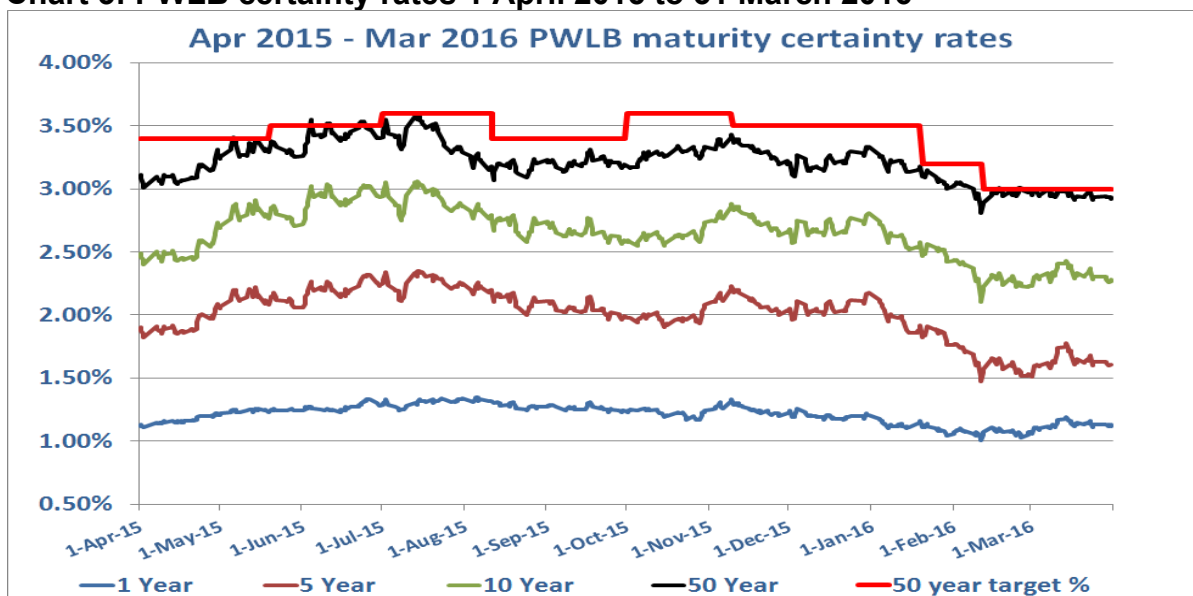
5.1 The key points relating to the 2015/16 borrowing strategy, as agreed within the TMSS, were:

- To set an authorised borrowing limit of £800m for 2015/16;
- The Council has borrowed £89m from the EIB to fund the urban regeneration and economic growth programme of Gascoigne Estate (East) Phase 1 and Abbey Road 2
- The Council's borrowing strategy, excluding EIB borrowing, will give consideration to the following when deciding to take-up new loans:
  - Use internal cash balances, while the current rate of interest on investments remain low, with consideration given to weighing the short term advantage of internal borrowing against potential long term costs if long term borrowing rates begin to increase more than forecast;
  - Using a range of durations for long term fixed rate market loans where rates were significantly less than PWLB rates for the equivalent maturity period;
  - Use short dated PWLB variable rate loans where rates are expected to be significantly lower than rates for longer period;
  - Ensure that new borrowing, if required, is timed at periods when rates are expected to be low; and
  - Consider the issue of stocks and bonds if appropriate.
- The Council will continue to utilise internal borrowing rather than external borrowing as the opportunity arises.

## 5.2 Borrowing Rates in 2015/16

Chart 3 shows how Public Works and Loans Board (PWLB) certainty rates have fallen to near historically very low levels during the year.

**Chart 3: PWLB certainty rates 1 April 2015 to 31 March 2016**



### 5.3 Debt Rescheduling, Repayment and New Borrowing

Two market loan repayments/restructuring options were considered and rejected as they did not provide value for money. There were no opportunities to repay PWLB debt at discount.

### 5.4 Borrowing Owed as at 31 March 2016

A number of short-term loans with other Local Authorities were held as at 31 March 2016. The total value of the loans was £57.2m and these were held to cover a prepayment made to Elevate East London and to cover investment opportunities that arose towards the end of the financial year.

The Council held the following long term loans as at 31 March 2016

Counterparty	Loan Type	Start Date	Maturity Date	Principal	Interest Rate (%)
Barclays	LOBO loan - Fixed	30-May-08	30-May-78	10,000,000	3.98
Dexia	LOBO loan - Fixed	30-Jun-08	30-Jun-77	10,000,000	3.98
RBS	LOBO loan - Fixed	26-Mar-10	27-Feb-60	10,000,000	4.07
RBS	LOBO loan - Fixed	26-Mar-10	26-Mar-59	10,000,000	4.05
PWLB	PWLB loan - Maturity	28-Mar-12	28-Mar-42	50,000,000	3.50
PWLB	PWLB loan - Maturity	28-Mar-12	28-Mar-62	65,912,000	3.48
PWLB	PWLB loan - Maturity	28-Mar-12	28-Mar-61	50,000,000	3.49
PWLB	PWLB loan - Maturity	28-Mar-12	28-Mar-52	50,000,000	3.52
PWLB	PWLB loan - Maturity	28-Mar-12	28-Mar-60	50,000,000	3.49
European Investment Bank	Loan - Fixed	30-Jan-15	31-Mar-44	89,000,000	2.21
				394,912,000	

### 5.5 Borrowing in 2016/17

As outlined in section 4.4, in June 2016 the SDFI agreed to borrow £50m from the Public Works and Loans Board (PWLB) due to the significant decrease in the cost of long term borrowing. The details of the borrowing are summarised below:

On 9 June 2016 borrowed £20m at 2.72% with a 50 year maturity;  
On 14 June 2016 borrowed £10m at 2.65% with a 43.5 year maturity;  
On 28 June 2016 borrowed £10m at 2.49% with a 43.5 year maturity; and  
On 29 June 2016 borrowed £10m at 2.38% with a 46.0 year maturity.

The total Council borrowing is now £444.912m, with the HRA borrowing totalling £265.912 and the General Fund borrowing totalling £179m.

### 5.6 European Investment Bank (EIB) Funding

At the September 2014 Assembly, Members agreed to borrow up to £150m from the EIB to fund a comprehensive urban regeneration and economic growth programme in the borough.

The EIB's rates for borrowing are generally favourable compared to PWLB, allowing for existing planned future borrowing from PWLB to be replaced by cheaper funding

from the EIB. The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the Council's overall pooled borrowing.

The Terms agreed with the EIB were sufficiently flexible to provide the Council with the option of fixing the interest rate for some or all of the loan facility at completion of contracts, which allows the Council to drawdown tranches on the most economically advantageous terms.

The drawdown of the full £89m was completed on 30 January 2015 at a rate of 2.207% from the EIB to fund the urban regeneration and economic growth programme of Gascoigne Estate (East) Phase 1 and Abbey Road 2. A further £61m of EIB borrowing remained with a number of urban regeneration and economic growth programmes that could be funded from this source, e.g. later phases of the Gascoigne renewal, Barking Riverside gateway housing zone. To provide certainty on the availability and cost of funds, Assembly is asked to agree to borrow the remaining £61m from the EIB.

Members are asked to:

- i. agree to borrow the remaining £61m from the EIB as soon as suitable regeneration projects are identified;
- ii. delegate authority to the Strategic Director Finance & Investment, in consultation with the Director of Law & Governance, and the Cabinet Member for Finance, Growth and Investment, to negotiate terms with the EIB; and
- iii. authorise the Director of Law and Governance, or an authorised delegate on her behalf, to execute all of the legal agreements, contracts and other documents on behalf of the Council.

## 6. Treasury Management Costs

6.1 The costs associated with the Treasury Management function comprise of a recharge of a proportion of the internal team's salary, software, treasury management advisers fees and external managers fees.

6.2 Treasury management costs are summarised in table 2 below:

**Table 2: Treasury Management costs for 2015/16**

Salary Recharge	30,800
Software and other costs	8,245
Capita Treasury Limited	17,000
	<b>56,045</b>

## 7. Compliance with Treasury limits and Prudential Indicators

7.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordable limits) are included in the approved TMSS.

7.2 During the financial year to date the Council has operated within and complied with the treasury limits and Prudential Indicators set out in the Council's annual TMSS. The Council's prudential indicators are set out in Appendix A to this report. In 2015/16, the Council did not breach its authorised limit on borrowing of £802m.

7.3 The Operational limit set in the 2015/16 TMSS was £750m, which was not breached.

## **8. Lending to commercial and external organisations**

8.1 As part of the Council's mitigation of risk strategies around delivering and continued value for money services with external organisations, the Council should from time to time have the ability to make loans to external organisations.

8.2 Section 2 of the Local Government Act 2000 (power of well-being) gives authorities the power to lend as part of promotion or improvement of economic /social wellbeing of the Borough. The guidance encourages local authorities to use the well-being power as the power of first resort removing the need to look for powers in other legislation. Further the power provides a strong basis on which to deliver many of the priorities identified by local communities and embodies in community strategies. The Strategic Director for Finance and Investment determines the rates and terms of such loans.

## **9. Conclusions**

9.1 The key conclusions to draw from this report are as follows:

a) The Council complied with prudential and treasury indicators in 2015/16;

b) The value of investments as at 31 March 2016 totalled £227.1 million;

c) The value of long term borrowing as at 31 March 2016 totalled £394.9m. This comprised market, PWLB and EIB loans; and

d) The value of short term borrowing as at 31 March 2016 totalled £57.2m.

## **10. Options Appraisal**

10.1 There is no legal requirement to prepare a Treasury Management Annual Report, however, it is good governance to do so and meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

## **11. Consultation**

11.1 The Strategic Director for Finance and Investment has been informed of the approach, data and commentary in this report.

11.2 The Cabinet considered and endorsed this report at its meeting on 28 June 2016.

## **12. Financial Implications**

Implications completed by: Jonathan Bunt, Strategic Director for Finance and Investment

- 12.1 This report sets out the outturn position on the Council's treasury management position and is concerned with the returns on the Council's investments as well as its short and long term borrowing positions.

## **13. Legal Implications**

Implications completed by: Eldred Taylor-Camara, Legal Group Manager

- 13.1 The legal and governance provisions have been incorporated in the body of this report. There are no further legal implications to highlight.

## **14. Risk Management**

- 14.1 The whole report concerns itself with the management of risks relating to the Council's cash flow. The report mostly contains information on how the Treasury Management Strategy has been used to maximise income throughout the past year.
- 14.2 EIB funded urban regeneration programme - The urban regeneration programme will be governed by a programme delivery board established in the Regeneration department. A programme manager will be identified within the Council who will be responsible for delivering each scheme within the investment programme.

**Background Papers Used in the Preparation of the Report:** None

### **List of appendices:**

Appendix 1 - The Prudential Code for Capital Investment in Local Authorities  
Appendix 2 - Glossary of Terms